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ABSTRACT

Although cash purchases seem to be waning in popularity, few researchers have investigated credit card literacy. This study examines college students' use and knowledge of credit cards. Researchers designed a questionnaire with 24 items and asked business professors in the southern region of the United States to administer the instrument to students in the professors' classes. The results of the 495 responses received are presented in 3 categories: (1) credit card use; (2) credit card knowledge; and (3) demographic information. The findings indicate that although most students consider themselves credit-card wise, they are willing to pay the high interest rates charged by credit-card companies. Few students defaulted on their card payments, but over 65 percent of them paid less than half of their outstanding balance each month. Some of the recommendations made include the offering of credit classes in high schools and colleges, financial counseling for students, and further research to determine how many college students experience financial difficulties due to credit overextension. Eight tables contain statistical summaries and a copy of the questionnaire appears in an appendix. (RJM)

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ED 376 403

AWARENESS, COMPREHENSION, AND USE OF CREDIT CARDS BY SOUTHERN REGION COLLEGE STUDENTS

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AWARENESS, COMPREHENSION, AND USE OF CREDIT CARDS BY SOUTHERN REGION COLLEGE STUDENTS

Introduction

In today's volatile economic conditions, a gradual switch to a cashless society is taking place (Clayton, Porter, Thomas, and Williams, 1984). Individuals must know how to be wise consumers--especially of credit. Researchers have given little emphasis, however, to credit card literacy. Therefore, a study to determine how much college and university students know about credit cards, as well as the extent to which students use them, is warranted.

The American Bar Association (1988) noted that "at any one time, about three-fifths of American families have installment debts outstanding . . . [, and] among these families, payments on their installment debts absorb about ten percent of family income" (p. 5). Many people are finding they have overextended themselves financially. As a result, personal bankruptcies are rising (American Bar Association, 1988).

Clayton and Porter (1984) noted that approximately 167 million customers worldwide hold the top two credit cards (Visa and MasterCard). Additionally, more and more today, teenagers and young adults are choosing to obtain and use credit cards. Once young individuals reach the age of 18, they are often tempted to enter the world of plastic money through unsolicited invitations by companies offering instant credit. Are these individuals prepared to be wise consumers of credit?

Problem Statements

This study determined:

1. Whether college students in the Southern Region of the United States are knowledgeable consumers and users of credit cards.

2. Whether curriculum changes need to be made in Southern Region high schools and/or colleges of business in order to ensure that students are knowledgeable consumers and users of credit cards.

Objectives

The objectives for this study were:

1. To determine the extent of credit card use among Southern Region college students.
2. To determine an awareness of credit card policies among Southern Region college students.
3. To determine credit card payment habits of Southern Region college students.
4. To determine extent of consumer credit card education (at the high school or collegiate level).

Methods and Procedures

Quantitative, descriptive research was used for this study. The researchers designed a questionnaire consisting of 24 dichotomous and multiple choice items (Appendix A). Items 1 through 16 requested information pertaining specifically to the objectives of this study. Items 17 through 24 provided demographic information on the study participants.

A cover letter requesting the recipients to administer the questionnaire to students in their business classes was mailed to 21 college of business professors from colleges and universities throughout the Southern Region of the United States. Nineteen professors (91%) returned their students' responses.

The sample for this study, therefore, consisted of 495 students attending college in the Southern Region (Alabama, Arkansas, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and West Virginia).

Findings and Results

Analyses of data collected during the study were performed using SPSSx statistical software. Frequencies and percentages resulting from those analyses are reported here. It should be noted that percentages may not total 100% in some instances, because students checked more than one response or because all did not respond to an item. For clarity, findings and results will be reported in three categories: credit card use, credit card knowledge, and demographic information.

Credit Card Use. Nine questionnaire items solicited information from the respondents relating to the manner in which they obtained and use credit cards. Tables 1 through 7 summarize data obtained from questions 1 through 9 of the survey.

Of the 495 respondents, 86% indicated that they have applied for their own credit card (Table 1). Additionally, while 30.1% reported that their cards were obtained as a result of unsolicited information from credit card companies, the majority (51.3%) indicated that it was their own idea (Table 2).

Table 1

Percent of Southern Region College Students Who Have or Have Not Applied for Credit Cards (n=495)

Question	Yes		No	
	f	%	f	%
Have you ever applied for your own credit card?	426	86.1	69	13.9

Table 2

Stimulus for Credit Card Application by Southern Region College Students (n=425)

Question: Who initiated the application?		
Response	f	%
It was my own idea.	218	51.3
The credit card company sent me unrequested information.	131	30.8
My parents encouraged me.	42	9.9
Other	34	8.0

Question three provided data about the number of credit cards students have. About half (50.1%) of the students responding (n=453) to that question indicated that they have three or more cards, and only 11.7% indicated that they have no credit cards (Table 3).

Table 3

Number of Credit Cards of Southern Region College Students (n=453)

Question: How many credit cards do you personally (or you and your spouse) have?		
Response	f	%
none	53	11.7
one	89	19.6
two	84	18.5
three or more	227	50.1

Students were also asked which credit cards they have. As Table 4 shows, students have a variety of credit cards. More students indicated that they have Visa (67.6%) than either MasterCard or Discover, and only 49 students reported having American Express.

Table 4 also shows that less than half (36.2%) of the students indicated that they had no department store credit cards. However, of those students who reported having department store cards, 36.3% have one or two cards; and 20.7% have three to seven cards. Two students reported having ten department store credit cards (Table 4a).

Only 30.9% of the students responding to question four indicated that they have gasoline credit cards (Table 4), and most of them have only one. However, one student reported having five gasoline cards (Table 4b).

Table 4

Type of Credit Cards of Southern Region College Students (n=398)

Question: If you have a credit card, which card(s) do you have? (Check all that apply.)

Card Type	f	%
Visa	269	67.6
MasterCard	164	41.2
American Express	49	12.3
Discover	116	29.1
Department Store (Sears, Penney, Dillards, etc.)	253	63.6
Gasoline (Amoco, BP, Exxon, Shell, etc.)	123	30.9

Less than half (38.8%) of the students who responded to the question asking for information about the total line of credit for all credit cards combined reported having lines of credit limited to $2,000. Additionally, 48.2% reported credit lines ranging between $2,000 and $10,000, and 51 students (13%) indicated limits exceeding $10,000 (Table 5).

Table 5

Total Line of Credit of Southern Region College Students (n=392)

Question: What is your total line of credit (on all your credit cards combined)?

Response	f	%
$ 0 - $2,000	152	38.8
$2,001 - $4,000	77	19.6
$4,001 - $6,000	55	14.0
$6,001 - $8,000	41	10.5
$8,001 - $10,000	16	4.1
more than $10,000	51	13.0

While one student reported averaging more than $1,000 in credit card purchases monthly, most (82.1%) reported limiting their average monthly charges to a maximum of $200 (Table 6).

Table 6

Average Monthly Charged by Southern Region College Students (n=397)

Question: On the average, approximately what amount do you (or you and your spouse) charge to your credit card(s) each month?

Response	f	%
$0 - $200	326	82.1
$201 - $400	46	11.6
$401 - $600	15	3.8
$601 - $800	7	1.8
$801 - $1,000	2	.5
more than $1,000	1	.3

Less than half (43.4%) of the students responding reported that they pay more than the minimum amount due each month, and 27.3% indicated that they pay the entire balance monthly. However, 87 students reported that they pay only the minimum amount, and one student reported paying only interest monthly (Table 7).

Table 7 also shows that while a little more than four-fifths (85.5%) of the students reported paying their credit card bills on time, 49 students reported having had credit cards cancelled for nonpayment.

Credit Card Knowledge. Few students indicated that they had learned strategies for wise credit card use in either high school (10.2%) or college (32.2%).

However, most students indicated that they know how credit card companies work (70.7%), know what to do if they can't pay their debts (60.0%), know their rights and obligations regarding credit cards (53.2%), know what to do if their credit cards are lost or stolen (96.0%), and know the annual percentage rate of interest charged by their credit card companies (87.3%).

Table 7

Methods Southern Region College Students Use to Pay Credit Card Charges

Response	f	%
Question: Generally, how do you pay charges made to your credit card?		
Pay only interest charged each month	2	.5
Pay minimum amount due on each statement	87	22.0
Pay more than minimum amount due each month but less than half of entire balance	172	43.4
Pay at least half, but not the entire balance	26	6.6
Pay in full each month	108	27.3
Question: Do you make your credit card payments on time each month?		
Yes	341	85.5
No	58	14.5
Question: Have you ever had a credit card canceled for nonpayment?		
Yes	49	11.9
No	364	88.1

Demographic Information. Most respondents were under 25 years of age (78.1%), female (53.6%), and single (82.2%).

While students of all collegiate classifications participated in the study, the majority were seniors (52.3%). Other classifications were freshman (1.7%), sophomore (11.6%), junior (28.8%), and graduate (6.2%)

Additionally, as Table 8 shows, the majority were Caucasian.

Table 8

Race of Southern College Students Participating in Credit Card Study (n=495)

Race	f	%
African American	113	23.5
Asian	7	1.5
Caucasian	330	68.6
Hispanic	11	2.3
Native American	13	2.7
Other	7	1.5

Annual income for students participating in the study ranged from $5,000 or less (44.3%) to more than $30,000 (10.0%). Seventy-six percent of the students reported annual incomes of $15,000 and under.

Only 8.7% of the students reported that they were totally supported by parents or spouse; 26.2% indicated that they provided at least half of their financial source; and 24.1% reported that they were totally self-supporting.

Conclusions and Recommendations

Conclusions

The following conclusions are drawn from the analyses of survey responses:

1. Even though most students indicate that they are credit-card wise, they are willing to pay the high interest rates charged by credit-card companies.

2. Since few have had their credit cards canceled for nonpayment, students probably keep their payments fairly current.

3. Since most students pay less than half the entire balance each month, they are not necessarily wise consumers of credit.

Recommendations

Based on analyses of the responses, the following recommendations are offered:

1. Curriculum planners at the high school level and/or collegiate level should ensure that their students learn about credit and how to be wise consumers of credit.

2. Further research is needed to determine how many college students are experiencing financial difficulty because they have overextended themselves and to discover cause-effect relationships.

3. High schools, colleges, and universities might consider offering financial counseling to students who want it.

Summary

The "cashless society" may not be as remote as we think. How often do we stop to consider the actual cost of our credit habits? People today are awash in credit--credit cards, rent-to-own, easy credit payment plans. The total cost of credit purchases can double or triple, not to mention the extended time frame involved. For instance, by paying only the minimum balance each month on a debt of $3,100, approximately 15 years would elapse before the account would be cleared.

Business educators have certain goals, such as preparing students "for" and "about" business. Educators are supposed to provide students with the necessary skills and knowledge to become excellent, productive workers; and they are supposed to give students the knowledge to be wise citizens and consumers. The results of this study indicate that students perceive that they have considerable credit card knowledge, but they often fail to apply that knowledge in their personal lives. Therefore, business educators need to review and enhance the "about" portion of the curriculum, specifically to ensure that students understand the importance of using the information they learn in their daily lives.

References

American Bar Association. (1988). Your legal guide to consumer credit with a special section on bankruptcy. You and the Law Series. Chicago, IL: Author, Public Education Division.

Clayton, B., Porter, P., Thomas, H., & Williams, E. (1984). Credit: A teaching unit. Columbia, SC: South Carolina State Department of Education.

Appendix A

Personal Use and Knowledge of Credit Cards

The purposes of this questionnaire are to determine personal use and knowledge of credit cards. By voluntarily completing and returning this survey, you are giving your permission for this information to be used as grouped data. Your anonymity is guaranteed because your name is not requested on the survey.

Credit Card Use

1. Have you ever applied for your own credit card?
   _____ a. yes
   _____ b. no

2. Who initiated the application?
   _____ a. It was my own idea.
   _____ b. The credit card company sent me unrequested information.
   _____ c. My parents encouraged me.
   _____ d. Other (specify):
   _____

3. How many credit cards do you personally (or you and your spouse) have?
   _____ a. none
   _____ b. one
   _____ c. two
   _____ d. three or more

4. If you have a credit card, which card(s) do you have? **(Check all that apply.)**
   _____ a. Visa
   _____ b. MasterCard
   _____ c. American Express
   _____ d. Discover
   _____ e. department store (Sears, Penney, Dillards, etc.) **How many?** _____
   _____ f. gasoline (Amoco, BP, Exxon, Shell, etc.) **How many?** _____

5. What is your total line of credit (on all your credit cards combined)?
   _____ a. $0 - $2,000
   _____ b. $2,001 - $4,000
   _____ c. $4,001 - $6,000
   _____ d. $6,001 - $8,000
   _____ e. $8,001 - $10,000
   _____ f. more than $10,000

6. On the average, approximately what amount do you (or you and your spouse) charge to your credit card(s) **each month**?
   _____ a. $0 - $200
   _____ b. $201 - $400
   _____ c. $401 - $600
   _____ d. $601 - $800
   _____ e. $801 - $1,000
   _____ f. more than $1,000

7. Generally, how do you pay charges made to your credit card?
   _____ a. pay only interest charged each month
   _____ b. pay minimum amount due on each statement
   _____ c. pay more than minimum amount due each month but less than half of entire balance
   _____ d. pay at least half, but not the entire balance
   _____ e. pay in full each month

8. Do you make your credit card payments on time each month?
   _____ a. yes
   _____ b. no

9. Have you ever had a credit card canceled for nonpayment?
   _____ a. yes
   _____ b. no

Credit Card Knowledge

10. Have you learned strategies for wise credit card use in any of your college business courses?
    _____ a. yes
    _____ b. no

CONTINUED ON OTHER SIDE → →

11. Did you learn strategies for wise credit card use in any of your high school business courses?
_____ a. yes
_____ b. no

12. Do you know how credit card companies work?
_____ a. yes
_____ b. no

13. Do you know what to do if you cannot pay your bills?
_____ a. yes
_____ b. no

14. Do you know your legal rights and obligations as they relate to credit card use?
_____ a. yes
_____ b. no

15. Do you know what to do if credit cards are lost or stolen?
_____ a. yes
_____ b. no

16. Do you know the annual percentage rate of interest charged by your credit card companies?
_____ a. yes
_____ b. no

Personal Information

17. What is your age?
_____ a. under 25
_____ b. 25 and older

18. What is your marital status?
_____ a. single
_____ b. married

19. What is your race?
_____ a. African American
_____ b. Asian
_____ c. Caucasian
_____ d. Hispanic
_____ e. Native American
_____ g. Other (specify)
_____

20. What is your gender?
_____ a. female
_____ b. male

21. What is **your** (or your and your spouse's) total annual income?
_____ a. $5,000 or less
_____ b. $5,001 - $10,000
_____ c. $10,001 - $15,000
_____ d. $15,001 - $20,000
_____ e. $20,001 - $25,000
_____ f. $25,001 - $30,000
_____ g. more than $30,000

22. How would you best describe your financial source?
_____ a. totally self-supporting
_____ b. mostly self, some parental/spousal support
_____ c. half self, half parental/spousal support
_____ d. some self, mostly parental/spousal support
_____ e. totally parental/ spousal support
_____ f. other (specify)
_____

23. What is your academic major?
_____ a. Accounting
_____ b. Business Admin./ General Business
_____ c. Business Education
_____ d. Computer Info. Systems
_____ e. Economics
_____ f. Finance
_____ g. Management
_____ h. Marketing
_____ i. Office Admin./Admin. Services
_____ j. Other (specify)
_____

24. What is your collegiate classification?
_____ a. Freshman
_____ b. Sophomore
_____ c. Junior
_____ d. Senior
_____ e. Graduate

THANK YOU FOR YOUR HELP!

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